



Treasury Inspector General for Tax Administration

THE CENTRALIZED LIEN UNIT PROPERLY FILED FEDERAL TAX LIENS BUT NEEDS TO MINIMIZE THE NUMBER OF AND IMPROVE CONTROLS OVER LIENS RETURNED BY RECORDING OFFICES

Issued on July 31, 2007

Highlights

Highlights of Report Number: 2007-30-122 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

A Federal Tax Lien gives the IRS a legal claim to a taxpayer's property for the amount of his or her tax debt. Failure to file and properly record a Notice of Federal Tax Lien in the recording office may jeopardize the Federal Government's priority right against other creditors. It is extremely important to protect the interests of the Federal Government, creditors, and taxpayers in general.

WHY TIGTA DID THE AUDIT

This audit was part of our audit coverage of the Small Business/Self-Employed Division and was included in our Fiscal Year 2006 Annual Audit Plan. The overall objective of this review was to determine whether the Internal Revenue Service (IRS) had taken appropriate actions to ensure the Centralized Lien Processing Unit is operating effectively.

WHAT TIGTA FOUND

The lien processing unit generally prepared Federal Tax Liens accurately and timely. However, TIGTA found problems associated with the sorting and mailing of the Liens and the paying of lien fees to the recording offices, which caused the recording offices not to timely file and properly record the Federal Tax Liens. These problems were a major reason recording offices returned approximately 29,000 lien documents to the IRS to be reworked.

The IRS needs to reduce the volume of returned lien documents by improving the process of paying lien fees. In addition, procedures need to be established to ensure returned lien documents rejected by the recording offices are properly controlled and corrected. Correcting returned lien documents takes additional staffing and processing time, which delay the filing or releasing of the

Federal Tax Liens. Processing delays can jeopardize the collection of money owed to the Federal Government and the timely release of Notices of Federal Tax Lien after the taxpayers satisfy their tax obligations.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Collection, pursue other options for paying lien fees to recording offices for processing lien documents and implement a process to ensure lien fee changes are timely and properly updated. The Director, Campus Compliance Services should establish criteria for measuring the accuracy and timeliness of returned lien documents and ensure returned lien batches are properly maintained so the cases can be easily retrieved and reworked.

In their response to the report, IRS officials agreed with our recommendations and plan to take or have taken corrective actions. IRS management plans to pilot a lien fee payment process directly connecting lien payments to document issuance and to develop procedures to ensure lien batches are properly maintained. In addition, IRS management has developed new procedures for monitoring, reworking, and returning lien documents to the county recording offices accurately and timely.

However, management disagreed with our outcome measures regarding 78 Federal Tax Liens that were not filed or timely filed, thus jeopardizing the collection of \$3.4 million. Management stated the official IRS database for recording liens and releasing lien information is the Automated Lien System, not a third-party database (i.e., Accurant).

We agree that Accurant is a third-party research tool and may not be totally accurate. However, our research showed discrepancies among all systems because none of the systems were completely accurate. Absent actual visits to recording offices, in our opinion, Accurant is the most reliable source available to verify lien filing information. Therefore, we believe 58 liens may not have been filed and the collection of \$2.1 million may be in jeopardy. We also believe 20 liens may not have been filed timely because the Automated Lien System showed it took an average of 329 days for the liens to be filed at the recording offices, thereby jeopardizing the collection of \$1.3 million.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730122fr.pdf>

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037